

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Capital Region Airport Authority</u>	County Ingham
Audit Date June 30, 2005	Opinion Date September 6, 2005	Date Accountant Report Submitted To State: December 6, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 1111 Michigan Avenue	City East Lansing	State MI	ZIP 48823
Accountant Signature <i>Plante & Moran, PLLC</i>			



CAPITAL REGION AIRPORT AUTHORITY

Financial Report with Supplemental Information

June 30, 2005

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Capital Region Airport Authority

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Independent Auditor's Report

To the Board of Directors
Capital Region Airport Authority

We have audited the basic financial statements of the Capital Region Airport Authority (the "Authority") as of June 30, 2005 and 2004 and for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2005 and 2004 and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (unaudited) (identified in the table of contents) is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The accompanying other supplemental information is presented for the purpose of additional analysis. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Board of Directors
Capital Region Airport Authority

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated September 6, 2005 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Plante & Moran, PLLC

September 6, 2005

Capital Regional Airport Authority

Management's Discussion and Analysis (Unaudited)

The following management's discussion and analysis (MD&A) of the Capital Region Airport Authority's activities is intended to provide an overview of the Authority's financial condition. The information contained in this MD&A should be considered in conjunction with the statement of net assets, the statement of revenue, expenses, and changes in net assets, the statement of cash flows, and other statistical information contained in this report.

Financial Operations Highlights

- Operating revenues increased by 10.3 percent from \$6,859,700 in 2004 to \$7,566,027 in 2005, due to airport traffic increases, reflected most prominently in parking lot fees and concessions.
- Mason Jewett Field's revenue increased 27.2 percent from \$234,655 in 2004 to \$298,389 in 2005, primarily from increased fuel sales.
- Salaries and benefits increased 5.3 percent from \$4,009,146 in 2004 to \$4,223,208 in 2005 due to increased health insurance and MERS contribution requirements.
- Operating expenses, exclusive of depreciation, increased 13 percent from \$7,386,918 in 2004 to \$8,353,486 in 2005, primarily due to increased marketing expenses for the airport and air service development program.

Financial Operations Overview

Capital Region Airport Authority's mission to "provide excellent airport facilities and services that exceed our customers' expectations" has driven a strategic plan which clearly enumerates directives designed to promote the recovery of the Authority's passenger base through increased quality and quantity of air service provided at the Capital Region Airport Authority. Thus, management's core objective is to effectively use present revenues generated to implement these growth oriented directives and to solidify the airport's infrastructure to handle the resulting increase in air service activity. The key performance indicators for the Authority, therefore, relate to changes in net assets, as well as nonfinancial measurements including (but not limited to) passenger count, aircraft landings, and parking lot activity.

Capital Region Airport Authority

Management's Discussion and Analysis (Unaudited) (Continued)

Financial Position Summary

A condensed summary of the Authority's changes in net assets for the years ended June 30 is presented below as follows:

	2005	2004
Assets		
Current	\$ 3,169,781	\$ 2,815,449
Noncurrent	57,809,926	56,279,810
Total assets	<u>\$ 60,979,707</u>	<u>\$ 59,095,259</u>
Liabilities		
Current	\$ 611,028	\$ 1,029,295
Revenue bonds	13,216,718	13,954,638
Other	303,555	326,456
Total liabilities	<u>\$ 14,131,301</u>	<u>\$ 15,310,389</u>
Net Assets		
Unrestricted	\$ 2,709,331	\$ 1,942,806
Restricted	5,610,403	5,397,316
Invested in capital	38,528,672	36,444,748
Total net assets	<u>\$ 46,848,406</u>	<u>\$ 43,784,870</u>

Capital Region Airport Authority

Management's Discussion and Analysis (Unaudited) (Continued)

Summary of Changes in Net Assets

A condensed summary of the Authority's changes in net assets for the years ended June 30 is presented below as follows:

	<u>2005</u>	<u>2004</u>
Operating revenue	\$ 7,566,027	\$ 6,859,700
Operating expense	<u>11,491,173</u>	<u>10,509,853</u>
Operating loss	(3,925,146)	(3,650,153)
Nonoperating revenue (expenses):		
Tax revenue	3,141,313	3,128,393
Investment income	110,137	44,372
Interest expense	(750,289)	(770,679)
Miscellaneous - Net	14,294	4,690
Passenger facility charges	<u>1,433,700</u>	<u>1,274,202</u>
Net nonoperating revenue	<u>3,949,155</u>	<u>3,680,978</u>
Net income (loss) before capital contributions	24,009	30,825
Capital contributions	<u>3,039,527</u>	<u>3,820,350</u>
Net income	<u><u>\$ 3,063,536</u></u>	<u><u>\$ 3,851,175</u></u>

Capital Region Airport Authority

Management's Discussion and Analysis (Unaudited) (Continued)

Capital Asset and Debt Administration

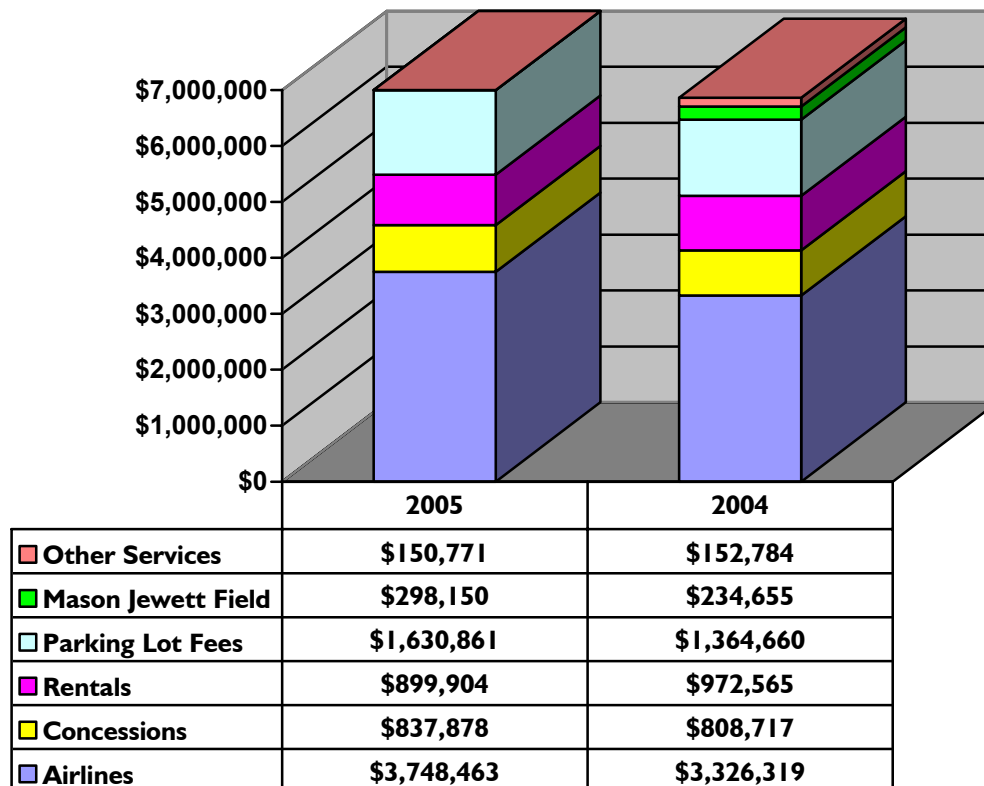
Capital assets consisting of land, airport improvements in progress, buildings, taxiways, runways, machinery, and equipment increased by \$4,483,692 primarily due to the security upgrade project and security enhancement project.

At year end, the Authority had outstanding bonds totaling \$13,216,718.

Revenues

The following chart depicts the Authority's operating revenue sources and their relationship to the total operating revenues for the years ended June 30 as presented below:

Operating Revenue



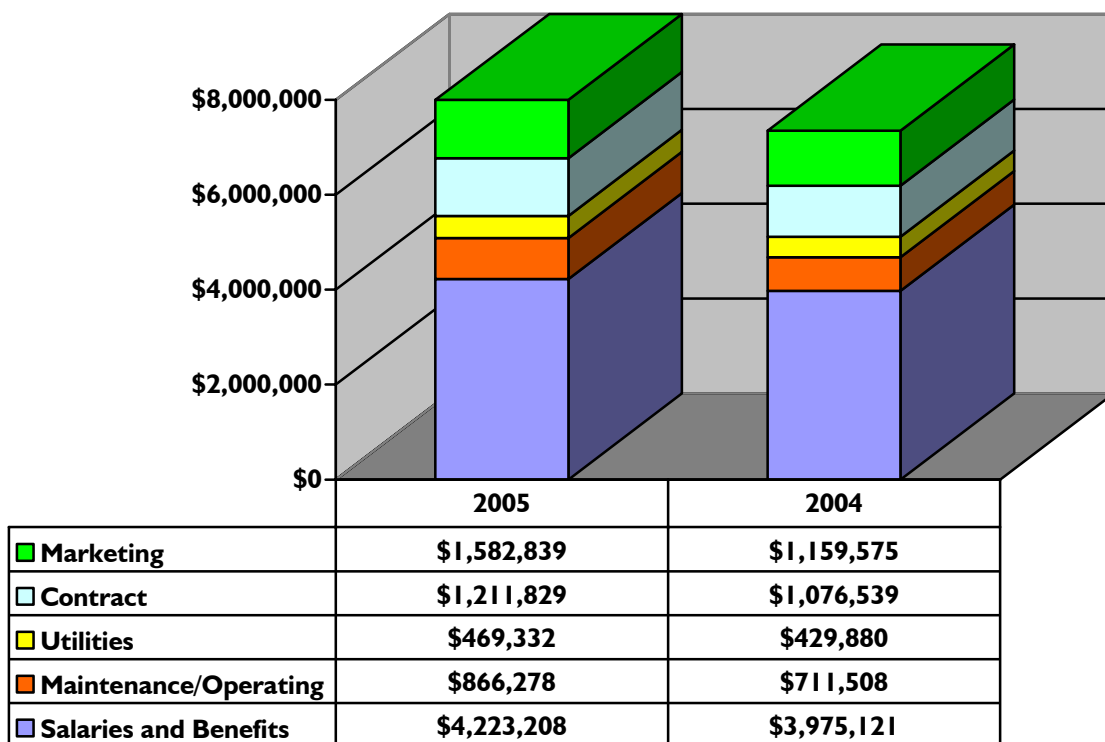
Capital Region Airport Authority

Management's Discussion and Analysis (Unaudited) (Continued)

Expenses

The following chart depicts the Authority's major operating expense categories, exclusive of depreciation, and their relation to the total operating expenses for the years ended June 30 as presented below:

Operating Expenses



Capital Region Airport Authority

Management's Discussion and Analysis (Unaudited) (Continued)

Airline Rates and Charges

The Authority sets rates and charges annually by adoption of a resolution based on a compensatory (cost of services) methodology. This methodology utilizes the Authority's statement of operations and debt service requirements to allocate these costs to the various air service providers. These rates include the terminal rental rates, landing fees, and airline apron fees. These rates for the past two years are as follows:

	2005	2004
Terminal rental (average per square foot)	\$ 35.52	\$ 34.48
Landing fees (signatory rate per 1,000 pounds)	2.24	2.06
Airline apron fee (per 1,000 pounds)	0.28	0.26

Financial Statements

Capital Region Airport Authority's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The Authority accounts for its activity in a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are depreciated (except land and construction-in-progress) over their useful lives. Construction-in-progress projects are closed and transferred to their respective capital accounts upon completion.

Contacting the Authority's Financial Management

This financial report is intended to provide taxpayers, customers, and bondholders with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the finance director's office at the Capital Region Airport Authority, 4100 Capital City Boulevard, Lansing, MI 48906.

Capital Region Airport Authority

Statement of Net Assets

		June 30	
		2005	2004
Assets			
Current Assets			
Cash and investments (Note 2)	\$	1,726,763	\$ 1,720,284
Trade accounts receivable - Less allowance for doubtful accounts of \$61,000 and \$60,000, respectively		1,220,645	875,257
Passenger facility charges receivable		179,479	182,454
Prepaid expenses and other assets		42,894	37,454
Total current assets		3,169,781	2,815,449
Restricted Assets (Notes 2 and 3)		5,610,403	5,397,316
Other Assets		454,133	483,108
Capital Assets (Note 4)		51,745,390	50,399,386
Total assets	\$	60,979,707	\$ 59,095,259
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued liabilities	\$	445,223	\$ 874,506
Compensated absences (Note 7)		165,805	154,789
Total current liabilities		611,028	1,029,295
Noncurrent Liabilities			
Revenue bonds payable - Excluding current installments (Note 5)		13,216,718	13,954,638
Compensated absences (Note 7)		303,555	326,456
Total liabilities		14,131,301	15,310,389
Net Assets			
Invested in capital assets - Net of related debt		38,528,672	36,444,748
Restricted (Note 3)		5,610,403	5,397,316
Unrestricted		2,709,331	1,942,806
Total net assets		46,848,406	43,784,870
Total liabilities and net assets	\$	60,979,707	\$ 59,095,259

Capital Region Airport Authority

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2005	2004
Operating Revenue		
Airfield	\$ 1,908,788	\$ 1,544,540
Terminal	2,966,038	2,877,090
Leased sites	2,328,908	2,139,504
Airline security screening	63,904	63,911
Mason Jewett Field	298,389	234,655
Total operating revenue	7,566,027	6,859,700
Operating Expenses		
Airfield	759,132	625,625
Terminal	1,289,078	1,278,529
Fire and security	1,489,949	1,543,526
Administrative	3,082,474	2,648,695
Depreciation	3,137,687	3,122,935
Mason Jewett Field	261,745	245,416
Airport development	1,471,108	1,045,127
Total operating expenses	11,491,173	10,509,853
Operating Loss	(3,925,146)	(3,650,153)
Nonoperating Revenue (Expenses)		
Tax revenue	3,141,313	3,128,393
Investment income	110,137	44,372
Interest and finance charges	(750,289)	(770,679)
Miscellaneous - Net	14,294	4,690
Passenger facility charge revenue	1,433,700	1,274,202
Total nonoperating revenue	3,949,155	3,680,978
Net Income - Before capital contributions	24,009	30,825
Capital Contributions	3,039,527	3,820,350
Net Income	3,063,536	3,851,175
Net Assets - Beginning of year	43,784,870	39,933,695
Net Assets - End of year	\$ 46,848,406	\$ 43,784,870

Capital Region Airport Authority

Statement of Cash Flows

	Year Ended June 30	
	2005	2004
Cash Flows From Operating Activities		
Payments to employees	\$ (4,223,208)	\$ (3,964,847)
Payments to suppliers	(4,571,446)	(3,009,667)
Charges and rentals	7,215,199	6,975,734
Net cash provided by (used in) operating activities	(1,579,455)	1,220
Cash Flows From Noncapital Financing Activities -		
Taxes collected	3,141,313	3,128,393
Cash Flows from Capital and Related Financing Activities		
Principal payments on revenue bonds payable	(775,000)	(745,000)
Interest paid	(684,235)	(704,625)
Capital expenditures - Net	(1,444,163)	(1,163,008)
Miscellaneous receipts	14,294	4,690
Passenger facility charges collected	1,436,675	1,171,046
Net cash used in capital and related financing activities	(1,452,429)	(1,436,897)
Cash Flows from Investing Activities		
Proceeds from sale of investments	-	864,131
Purchase of investments	(59,888)	(1,638)
Interest earned on investments	110,137	44,372
Net cash provided by investing activities	50,249	906,865
Net Increase in Cash and Cash Equivalents	159,678	2,599,581
Cash and Cash Equivalents - Beginning of year	4,072,296	1,472,715
Cash and Cash Equivalents - End of year	\$ 4,231,974	\$ 4,072,296
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and investments	\$ 1,726,763	\$ 1,720,284
Restricted cash and investments	5,610,403	5,397,316
Less amounts classified as investments	(3,105,192)	(3,045,304)
Total cash and cash equivalents	\$ 4,231,974	\$ 4,072,296

Supplemental Cash Flow Information - Capital contributions amounting to \$3,039,527 and \$3,820,350 were received from both the federal government and the State of Michigan during 2005 and 2004, respectively, and were recorded as additions to property, buildings, equipment, and Authority revenue.

Capital Region Airport Authority

Statement of Cash Flows (Continued)

Reconciliation of operating loss to net cash from operating activities:

	Year Ended June 30	
	2005	2004
Operating loss	\$ (3,925,146)	\$ (3,650,153)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	3,137,687	3,122,935
(Increase) decrease in assets:		
Accounts receivable	(345,388)	116,034
Other current assets	(5,440)	33,108
Increase (decrease) in liabilities:		
Accounts payable	(429,283)	381,168
Compensated absences payable	(11,885)	(1,872)
Net cash provided by (used in) operating activities	<u>\$ (1,579,455)</u>	<u>\$ 1,220</u>

Capital Region Airport Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 1 - Description of Organization and Summary of Significant Accounting Policies

Reporting Entity - Capital Region Airport Authority (the "Authority") was established on October 1, 1970 as a result of Public Act No. 73 of the Public Acts of 1970. The law took immediate effect upon the governor's signature on July 16, 1970. The Authority is charged with the responsibility of all public airport facilities within the jurisdictional confines of the Authority. As required by accounting principles generally accepted in the United States of America, these financial statements present the Capital Region Airport Authority. No other component units have been combined into the Authority's basic financial statements.

Basis of Presentation - The financial statements include the accounts of the Authority and have been prepared on the accrual basis. The significant accounting policies of the Authority, as summarized below, conform with proprietary fund accounting and reflect practices appropriate to the regulatory environment in which it operates.

Basis of Accounting - In accordance with Governmental Accounting Standards Board (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements. Additionally, the Authority follows all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB pronouncements. After November 30, 1989, the Authority only applies applicable GASB pronouncements.

These full accrual financial statements are reported using the economic resources measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Cash and Cash Equivalents - The Authority considers all investments purchased with an original maturity of three months or less to be cash equivalents.

Investments - Investments are stated at fair value, based on quoted market prices, and consist principally of money market funds, mutual funds, and governmental securities.

Other Assets - Other assets primarily include the bond issue costs on the revenue bond issues, which are being amortized using the interest method over the term of the respective issues.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets are carried at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. Cost of maintenance and repairs are charged to expense when incurred. Capital assets are defined by the Authority with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Costs incurred by the Authority for capital improvement projects are accumulated as airport improvements in progress until the project becomes operational, at which time such costs are transferred to the appropriate capital asset account.

Revenue/Expenses - Operating revenues and expenses generally result from providing services. All other revenues and expenses are reported as nonoperating.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

During the year ended June 30, 2005, the Authority adopted GASB No. 40, *Deposits and Investment Risk Disclosures*. The modified disclosures required by GASB No. 40 are reflected below. June 30, 2004 information continues to be presented under GASB No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 2 - Deposits and Investments (Continued)

The Authority has designated five banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as allowed by the state statutory authority as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Authority had \$4,973,984 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC Insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government or agency bond or note	\$ 350,503	2.5 years

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Mutual funds	\$2,754,689	AAA	Moody's

Capital Region Airport Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 2 - Deposits and Investments (Continued)

The Authority's deposits and investments are included on the balance sheet under the following classifications:

Deposits and investments	\$ 1,720,284
Restricted assets	<u>5,397,316</u>
Total	<u>\$ 7,117,600</u>

The above amounts are classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

Bank deposits	\$ 4,072,296
Investments	<u>3,045,304</u>
Total	<u>\$ 7,117,600</u>

Deposits - The above deposits were reflected in the accounts of the bank (without recognition of checks written, but not cleared, or of deposits-in-transit) at \$4,080,632 in 2005. Of that amount, \$413,130 was covered by federal depository insurance and \$3,667,502 was uninsured and uncollateralized in 2005. The Authority believes that, due to the dollar amounts of cash deposits and the limits of FDIC Insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits Authority funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments - State statutes authorize the Authority to invest in obligations of or guarantees by the U.S. government or federal agency obligation repurchase agreements; obligations of a state of the United States or of a political subdivision of a state of the United States that are rated in one of three highest categories by a nationally recognized rating agency; mutual funds or common trust funds composed of investment vehicles that are allowable for direct investment; certificates of deposit; savings and deposit accounts of banks or credit unions which are federally insured; and commercial paper rated within the highest category established by a nationally recognized rating service.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 2 - Deposits and Investments (Continued)

The Authority's investments are categorized in the following table to give an indication of the level of custodial credit risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the Authority's name.

June 30, 2004	GASB Category			Fair Value
	1	2	3	
Government securities	<u>\$ 349,203</u>	None	None	\$ 349,203
Mutual funds				<u>2,696,101</u>
Total investments				<u>\$ 3,045,304</u>

Mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above. The mutual funds are registered with the SEC.

Note 3 - Restricted Assets

The restricted funds at June 30, 2005 and 2004 are required under the Authority's 2002 revenue bond resolutions and the provisions of the Federal Passenger Facility Charge Program. These funds, which consist of cash and investments, are segregated into the following funds:

	Required Reserves	
	2005	2004
Passenger facility charge deposits	\$ 2,782,403	\$ 1,841,816
Bond interest and redemption fund	-	-
Bond reserve account	1,381,000	1,458,500
Renewal and replacement account	300,000	250,000
Operations and maintenance reserve account	<u>1,147,000</u>	<u>1,847,000</u>
Total restricted assets	<u>\$ 5,610,403</u>	<u>\$ 5,397,316</u>

Capital Region Airport Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 3 - Restricted Assets

Requirements of the following reserve account must be maintained if not expended on approved projects:

- **Passenger Facility Charge Deposits** - These deposits are funds collected from passengers in conjunction with the Federal Passenger Charge Program. The funds may only be used for projects approved by the Federal Aviation Administration in the Authority's record of decision.

Requirements of the following reserve accounts must be maintained at all times:

- **Bond Interest and Redemption Fund** - This fund is restricted for payment of the current portion of bond principal and interest. Payments due July 1 were paid prior to June 30.
- **Bond Reserve Account** - This account maintains a reserve for the lesser of the following: 10 percent of the stated principal amount of the Series 2002 Bonds, the maximum annual principal and interest requirements on the Series 2002 Bonds, or 125 percent of the average annual principal and interest requirements on the Series 2002 Bonds.
- **Renewal and Replacement Account** - This account was created to establish and maintain a reserve of \$300,000 and \$250,000 for 2005 and 2004, respectively, to be used to pay unanticipated emergency repairs at the Authority's facilities.

Requirements of the following reserve accounts must be fulfilled prior to the issuance of additional debt of a prior or equal standing with respect to rights in liquidation of existing debt.

- **Operations and Maintenance Reserve Account** - This account maintains a reserve for operations and maintenance expenses equal to two months of the cost of operating and maintaining Authority facilities during the immediately preceding fiscal year of the Authority. This fund was also established to be in accordance with specific lease agreements with several airlines. This fund included three months of the cost of operating and maintaining the facilities for June 30, 2004.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	July 1, 2004	Additions	June 30, 2005	Depreciable Life - Years
Capital Assets not Being Depreciated				
Land:				
Capital City Airport	\$ 8,876,261	\$ -	\$ 8,876,261	
Mason Jewett Field	860,639	-	860,639	
Total land	9,736,900	-	9,736,900	-
Airport improvements in progress	11,182,703	3,432,505	14,615,208	-
Total capital assets not being depreciated	20,919,603	3,432,505	24,352,108	
Other Capital Assets				
Land improvements:				
Capital City Airport	8,873,452	-	8,873,452	10-20
Buildings and improvements:				
Capital City Airport	32,583,538	-	32,583,538	
Mason Jewett Field	204,803	-	204,803	
Total buildings and improvements	32,788,341	-	32,788,341	10-20
Runways and taxiways:				
Capital City Airport	20,351,870	15,481	20,367,351	
Mason Jewett Field	2,326,702	-	2,326,702	
Total runways and taxiways	22,678,572	15,481	22,694,053	20
Machinery and equipment:				
Capital City Airport	7,090,565	997,365	8,087,930	
Mason Jewett Field	37,186	-	37,186	
Total machinery and equipment	7,127,751	997,365	8,125,116	3-10
Master plan:				
Capital City Airport	532,891	38,341	571,232	
Mason Jewett Field	243,000	-	243,000	
Total master plan	775,891	38,341	814,232	20
Subtotal other capital assets	72,244,007	1,051,187	73,295,194	
Less Accumulated Depreciation	42,764,224	3,137,688	45,901,912	
Other capital assets - Net	29,479,783	(2,086,501)	27,393,282	
Net total capital assets	\$ 50,399,386	\$ 1,346,004	\$ 51,745,390	

Capital Region Airport Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 4 - Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2004 was as follows:

	July 1, 2003	Additions	June 30, 2004	Depreciable Life - Years
Capital Assets not Being Depreciated				
Land:				
Capital City Airport	\$ 8,876,261	\$ -	\$ 8,876,261	
Mason Jewett Field	518,685	341,954	860,639	
Total land	9,394,946	341,954	9,736,900	-
Airport improvements in progress	6,778,312	4,404,391	11,182,703	-
Total capital assets not being depreciated	16,173,258	4,746,345	20,919,603	
Other Capital Assets				
Land improvements - Capital City Airport	8,873,452	-	8,873,452	10-20
Buildings and improvements:				
Capital City Airport	32,583,538	-	32,583,538	
Mason Jewett Field	204,803	-	204,803	
Total buildings and improvements	32,788,341	-	32,788,341	10-20
Runways and taxiways:				
Capital City Airport	20,351,870	-	20,351,870	
Mason Jewett Field	2,326,702	-	2,326,702	
Total runways and taxiways	22,678,572	-	22,678,572	20
Machinery and equipment:				
Capital City Airport	6,853,552	237,013	7,090,565	
Mason Jewett Field	37,186	-	37,186	
Total machinery and equipment	6,890,738	237,013	7,127,751	3-10
Master plan:				
Capital City Airport	532,891	-	532,891	
Mason Jewett Field	243,000	-	243,000	
Total master plan	775,891	-	775,891	20
Subtotal other capital assets	72,006,994	237,013	72,244,007	
Less Accumulated Depreciation	39,641,289	3,122,935	42,764,224	
Other capital assets - Net	32,365,705	(2,885,922)	29,479,783	
Net total capital assets	\$ 48,538,963	\$ 1,860,423	\$ 50,399,386	

Capital Region Airport Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 4 - Capital Assets (Continued)

Airport improvements in progress consist of the following:

	2005	2004
Federal projects:		
Project 3202 - Baggage Claim Expansion	\$ -	\$ 26,476
Project 3202 - Taxiway/Roadway Construction	-	390,561
Project 3202 - Lansing Security Upgrades	7,146,616	6,038,582
Project 3403 - Lansing Security Upgrades	4,115,229	2,918,684
Project 3604 - Runway Extension E.A./P.E.	507,692	136,645
Project 3704 - West Access Road	473,329	42,433
Project 3805 - Airport Land/Church Property	281,453	277,174
- Wetland Mitigation	121,107	-
- Benefit Cost Analysis	2,040	-
Project 2001.0623 - Hold Room/Board Room	831,997	28,315
Project B.26.0106.0804 - Mason Entrance Rd	157,513	-
Project B.26.0106.0904 - Mason Jewett Field	11,000	-
Authority projects:		
Business Park	226,250	226,250
Sanitary Sewer System	42,010	35,780
Sanitary Sewer System Extension	229,146	222,076
MUFIDS Upgrades	-	447,588
Economic Impact Study	-	38,341
Master Plan/Part 150	469,826	353,798
Total	<u>\$ 14,615,208</u>	<u>\$ 11,182,703</u>

Capital Region Airport Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 5 - Revenue Bonds Payable

Revenue bonds payable consist of the following at June 30:

	Beginning Balance	Current Year Reductions	Ending Balance
Series 2002 - A	\$ 335,000	\$ (205,000)	\$ 130,000
Series 2002 - B	14,250,000	(570,000)	13,680,000
Total revenue bonds payable	14,585,000	(775,000)	13,810,000
Less bond discount	(140,706)	8,277	(132,429)
Deferred amount on refunding of bonds	(489,656)	28,803	(460,853)
Revenue bonds payable	<u>\$ 13,954,638</u>	<u>\$ (737,920)</u>	<u>\$ 13,216,718</u>

The Authority issued revenue bonds in the amount of \$725,000 dated March 15, 2002 (Series A) for the purpose of refunding Series 1985 Bonds, which were for constructing a hangar, office, and training facility and making certain related site improvements. The bonds bear interest at an average rate of 3 percent. The bonds are secured by a lien upon the net revenue of the Authority; future improvements, enlargements, extensions or repairs; and payments made to the Authority by any other governmental entity.

The annual requirements to amortize the Series 2002-A Revenue Bonds and related interest at June 30, 2005 are as follows:

Years Ending June 30	Principal Due July 1	Interest Due July 1 and January 1	Total
2006	\$ -	\$ 2,275	\$ 2,275
2007	130,000	2,275	132,275
Total	<u>\$ 130,000</u>	<u>\$ 4,550</u>	<u>\$ 134,550</u>

Capital Region Airport Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 5 - Revenue Bonds Payable (Continued)

The Authority issued revenue bonds in the amount of \$15,330,000 dated March 15, 2002 (Series B) for the purpose of refunding Series 1992 Bonds which were for the purpose of constructing new hold rooms, ticket counters, and offices, other renovations and improvements to the terminal building, and improvements to the parking lot and terminal circulation roadways. The bonds bear interest at an average rate of 4.9 percent. The bonds are secured by a first lien upon the net revenue, as defined, of the Authority.

The annual requirements to amortize the Series 2002-B Revenue Bonds and related interest at June 30, 2005 are as follows:

Years Ending June 30	Interest Due		Total
	Principal Due July 1	July 1 and January 1	
2006	\$ -	\$ 327,157	\$ 327,157
2007	620,000	643,155	1,263,155
2008	610,000	620,100	1,230,100
2009	635,000	595,346	1,230,346
2010	670,000	568,250	1,238,250
2011	695,000	538,896	1,233,896
2012	730,000	507,713	1,237,713
2013	765,000	472,779	1,237,779
2014	805,000	435,672	1,240,672
2015	845,000	395,650	1,240,650
2016	885,000	352,823	1,237,823
2017	935,000	307,323	1,242,323
2018	985,000	259,323	1,244,323
2019	1,035,000	208,305	1,243,305
2020	1,095,000	153,169	1,248,169
2021	1,155,000	94,107	1,249,107
2022	1,215,000	31,894	1,246,894
Total	<u>\$ 13,680,000</u>	<u>\$ 6,511,662</u>	<u>\$ 20,191,662</u>

Capital Region Airport Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 6 - Line of Credit

The Authority has a line of credit with a bank with maximum borrowings of \$2,000,000. Outstanding amounts are due at maturity on May 26, 2006 and require monthly payments at an interest rate of 0.75 percent below prime per annum. At June 30, 2005, the Authority had not borrowed on the line of credit.

Note 7 - Compensated Absences

Compensated absences activity for the years ended June 30, 2005 and 2004 was as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
2005					
Compensated absences	\$ 481,245	\$ -	\$ 11,885	\$ 469,360	\$ 165,805

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
2004					
Compensated absences	\$ 483,117	\$ -	\$ 1,872	\$ 481,245	\$ 154,789

Note 8 - Leases

The Authority leases land, terminal space, and offices to various entities under the terms of noncancelable operating leases. Substantially all leases include a provision for future rental adjustments based upon changes in the consumer price index. Rental receipts include minimum rentals plus contingent rentals based on sales volume.

Rental income from the operating leases consisted of the following:

	2005	2004
Minimum rental	\$ 2,850,793	\$ 2,561,222
Contingent rentals	2,400,402	2,110,702
Total	<u>\$ 5,251,195</u>	<u>\$ 4,671,924</u>

Capital Region Airport Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 8 - Leases (Continued)

Future minimum lease rentals to be received under noncancelable operating leases, with initial or remaining lease terms in excess of one year, as of June 30, 2005, are as follows:

2006	\$ 909,143
2007	885,944
2008	656,906
2009	663,942
2010	406,655
Later years through 2051	<u>10,862,521</u>
Total	<u>\$ 14,385,111</u>

Note 9 - Defined Benefit Pension Plan

Plan Description - The Authority participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all employees. The system provides retirement, disability, and death benefits to plan members and beneficiaries. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Authority's competitive bargaining units and requires a contribution from the employees of 0.36 percent, 0 percent, and 4.66 percent from Capital City Airport Chapter of Local 1390, Public Safety Department Unit, and Public Safety Department Sergeants Unit, respectively.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 9 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the years ended June 30, 2005 and 2004, the Authority's annual pension cost was equal to the Authority's required and actual contribution. The annual required contribution for 2005 and 2004 was determined as part of an actuarial valuation at December 31, 2003 and December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include (a) 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent, and (c) additional projected salary increases ranging from 0 percent to 8.40 percent per year, depending on age, attributable to seniority and merit. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year Trend Information

Years Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 491,334	100	\$ -
2004	410,891	100	-
2003	345,710	100	-

Valuation Date	Actuarial Asset Values	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
December 31, 2004	\$ 7,203,545	\$ 11,611,168	\$ 4,407,623	62	\$ 2,681,975	164
December 31, 2003	6,782,953	10,477,093	3,694,140	65	2,718,626	136
December 31, 2002	6,268,146	9,717,944	3,449,798	65	2,495,171	138

Capital Region Airport Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 10 - Commitments

The Authority has provided a letter of credit with a bank related to a \$1,000,000 revenue, guaranteed for the benefit of an airline. The letter of credit is unsecured and will expire on December 15, 2006.

Note 11 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 12 - Postemployment Benefits

The Authority provides healthcare benefits to all full-time employees upon retirement. Currently, 21 employees are eligible. The Authority includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$219,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post-Employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other post-employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2009.

Other Supplemental Information

Capital Region Airport Authority

Schedule of Operating Revenue and Expenses Budget and Actual

	Year Ended June 30					
	2005			2004		
	Actual	Budget	Favorable (Unfavorable)	Actual	Budget	Favorable (Unfavorable)
Operating Revenue						
Airfield	\$ 1,908,788	\$ 1,606,128	\$ 302,660	\$ 1,544,540	\$ 1,532,180	\$ 12,360
Terminal	2,966,038	2,830,653	135,385	2,877,090	2,772,899	104,191
Leased sites	2,328,908	2,031,957	296,951	2,139,504	1,953,241	186,263
Airline security screening	63,904	64,400	(496)	63,911	63,900	11
Mason Jewett Field	298,389	271,095	27,294	234,655	234,847	(192)
Total operating revenue	7,566,027	6,804,233	761,794	6,859,700	6,557,067	302,633
Operating Expenses - Exclusive of Depreciation						
Airfield	759,132	672,077	(87,055)	625,625	626,607	982
Terminal	1,289,078	1,322,950	33,872	1,278,529	1,192,451	(86,078)
Fire and security	1,489,949	1,556,779	66,830	1,543,526	1,603,506	59,980
Administrative	3,082,474	2,639,055	(443,419)	2,648,695	2,511,981	(136,714)
Mason Jewett Field	261,745	261,220	(525)	245,416	243,216	(2,200)
Airport development	1,471,108	2,000,000	528,892	1,045,127	2,000,000	954,873
Total operating expenses	8,353,486	8,452,081	98,595	7,386,918	8,177,761	790,843
Operating Income (Loss) - Exclusive of depreciation	\$ (787,459)	\$ (1,647,848)	\$ 860,389	\$ (527,218)	\$ (1,620,694)	\$ 1,093,476

September 6, 2005

To the Board of Directors
Capital Region Airport Authority

In connection with our audit of the basic financial statements of the Capital Region Airport Authority (Authority) for the year ended June 30, 2005, we offer the following comment for your review and consideration:

Retiree Health Care Benefits

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid.

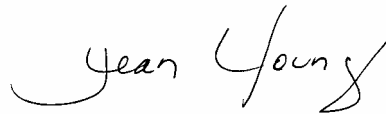
The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government-wide statement of net assets. This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is effective for the year ended June 30, 2009. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above date.

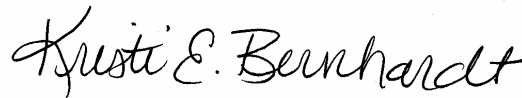
We are grateful for the opportunity to be of service to the Authority. The cooperation extended to us by the Authority's staff throughout the audit was greatly appreciated. Should you wish to discuss any of the items in this report, we would be happy to do so.

Very truly yours,

PLANTE & MORAN, PLLC

A handwritten signature in cursive script that reads "Jean Young".

Jean M. Young, CPA
Partner

A handwritten signature in cursive script that reads "Kristi E. Bernhardt".

Kristi E. Bernhardt, CPA
Associate